HARBOR FEDERAL
SAVINGS BANK

Memo

To: Manager, Dissemination Branch Via E-Mail public.info@ots.treas.gov
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552

From: David C. Hankle
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Date: October 2, 2000

Re: Proposed Agency Information Collection Activities

With respect to the above referenced request for comments, we are submitting the following. Please feel free to contact me should further clarification be necessary.

1. Non-traditional Lending

   a. HIGH LTV LOANS

   The proposal calls for the definition of high loan-to-value loans to include loans above 90% LTV and the initiation of separate tracking of such loans. As presently required, Harbor now classifies loans above 80% LTV without PMI as non-conforming loans. The examiners review these loans annually and management reviews them quarterly. This report already includes the high LTV loans in question. For management purposes, loans with 90% LTV are noted separately. Thus, performance of all non-conforming loans is monitored more closely than suggested in this revision.

   This current method of reviewing non-conforming loans better reflects the risk-focused supervision that the proposed TFR changes emphasize. To further break down this category would seem to be redundant and create an added layer of reporting.

   Since there currently exists a limitation on the amount of non-conforming loans, we suggest that the limitation be reviewed and either reduced or used as a trigger for further monitoring. For institutions like ourselves, where this level of lending is limited and performance has been acceptable, to establish separate reporting for the categories suggested in the proposal would appear unnecessary. Should the level of 90% LTV loan originations increase dramatically or exceed some target, then the additional reporting could be required.

b. SUBPRIME LENDING

As proposed we believe the definition of subprime loans to be too vague. To establish a definitive definition for subprime loans, a combination of three factors is recommended: credit score, loan to value, and debt ratio. When all three areas are weak, a risk exists to the bank. The following guidelines are recommended as a definition to subprime:

Credit score less than 600. **and**
Loan to value exceeding 80% without PMI. **and**
Debt ratio exceeding 40%.

We also suggest that subprime loans should be identified and monitored based upon origination volume. Future performance would be the key as to whether further monitoring is needed. At Harbor Federal, subprime loans are not segregated into a separate portfolio. The volume of the origination of these loans is quite small and a segregation and tracking of this portfolio is not felt to be warranted.

We understand the concern regarding current levels of subprime lending. However, we suggest that they continue to be tracked by each institution based upon origination levels and percentages, that this information be required to be monitored to senior management and that this information continue to be a item reviewed during examination. Based upon this criteria management or examiners should be directed to initiate further reporting or monitoring steps if warranted. To require such reporting of all institutions adds unnecessary work with little or no benefit. The tracking of such loans by origination volume would provide a means of the OTS assessing the total market involvement and growth among member institutions.

2. Definition of Mortgage Loans

We understand and have no comment upon expanding the definition of mortgage loans for reporting purposes. However, we would request a longer time period beyond the March 31, 2001 TFR reporting date.